

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR RATE ADJUSTMENT )	
OF HAYMOND WATER COMPANY PURSUANT )	
TO THE ALTERNATIVE RATE FILING )	CASE NO. 9685
PROCEDURE FOR SMALL UTILITIES )	

INTERIM ORDER

On September 5, 1986, the Haymond Water Company ("Haymond") filed an application requesting an increase in rates pursuant to the Alternative Rate Filing Procedure for Small Utilities ("ARF"). Haymond requested a deviation from the requirement that it have annual reports for the last 3 calendar years on file with the Commission. Haymond also requested to put its proposed rates in effect for service rendered on and after October 1, 1986, on an emergency basis subject to refund pending the Commission's final decision in this matter. Haymond requested rates which would produce an increase in annual revenues of \$14,452 or 273.7 percent. In this Order the Commission has granted an increase of \$10,752 or 203.6 percent.

COMMENTARY

Haymond is a privately-owned water utility providing service to approximately 80 customers in the Haymond area in Letcher County. Haymond has not filed annual reports with the Commission since 1978 when the Commission approved the sale of Haymond's water system to the City of Neon. The sale was never finalized and from 1978 through 1985 Haymond continued to operate as a

private utility without the Commission's knowledge or approval thereof.

In July 1986 Haymond performed extensive repairs to its water system at a cost of \$7,400 to its owners, Mr. and Mrs. Fred Spears. These repairs were made pursuant to the order of Franklin Circuit Court for the purpose of improving the quality of the water provided to Haymond's customers.

#### TEST PERIOD

Haymond proposed and the Commission has accepted the 12-month period ended December 31, 1985, as the test period in this matter.

#### BACKGROUND

Haymond attempted to increase its rates for water service in July 1986 without the approval of the Commission. On August 26 and 27, 1986, Jeff Shaw of the Commission staff was in Letcher County to assist Haymond's owners in preparing a rate application. That application was submitted as the instant case on September 5, 1986.

Several letters and a petition protesting the proposed increase in rates were filed with the Commission subsequent to the filing of the application. On October 9, 1986, the Commission held a public meeting in Neon for the purpose of allowing Haymond to explain the reasons for the requested increase and give Haymond's customers the opportunity to express their opposition to the requested increase.

#### REVENUE REQUIREMENTS

Haymond reported a net loss for the test year of \$1,911 and proposed several pro forma adjustments resulting in an adjusted

net loss of \$11,636. The Commission has reviewed Haymond's proposals and has made the following adjustments:

Legal Fees

Haymond proposed an adjustment of \$2,500 for the recovery over a 10-year period of legal fees incurred in connection with the recent proceedings in Franklin Circuit Court. Haymond did not present any evidence in support of this expense nor did it offer support for the proposed 10-year recovery period. In this instance however, such evidence would be irrelevant as this is a clear case of an expense incurred due to mismanagement by Haymond's owners. Had the necessary repairs been made to the system on a timely basis the court proceedings involving Haymond and the Cabinet for Natural Resources and Environmental Protection would not have taken place and the related legal expenses would not have been incurred. The Commission, therefore, will not allow these expenses to be included in the determination of rates for Haymond's customers.

Rate Case Expenses

Haymond proposed an adjustment of \$1,000 to reflect the 3-year amortization of estimated rate case expenses of \$3,000. Apparently this adjustment was made at the advice of the Commission staff; however, the advice was either improperly given or misinterpreted by Haymond. The maximum adjustment the Commission generally allows for rate case expense in ARF cases is \$1,000 spread over 3 years, or \$333 per year, not \$1,000 per year. Without any supporting documentation for a level of expense

greater than \$1,000, the Commission will not accept the adjustment proposed by Haymond but will include an adjustment of \$333.

After these adjustments, Haymond's adjusted test period operations appear as follows:

	Test Year Actual	Adjustments	Test Year Adjusted
Operating Revenues	\$ 3,480	\$ 1,800	\$ 5,280
Operating Expenses	5,391	8,358	13,749
Operating Income	<u>\$&lt;1,911&gt;</u>	<u>\$&lt;6,558&gt;</u>	<u>\$&lt;8,469&gt;</u>

Using an operating ratio of .88 and allowing a provision for income taxes, the Commission has calculated a total revenue requirement for Haymond of \$16,032. Based on Haymond's number of customers, which fluctuates between 75 and 80 (with approximately 10 percent of the homes without baths), the Commission has set Haymond's rates as follows:

Residence with Bath	\$18 per month
Residence without Bath	\$16 per month

#### OTHER MATTERS

Haymond's failure to notify the Commission that its sale to the City of Neon in 1978 was not consummated undoubtedly has contributed to the current situation. However, at this time nothing can be done to change the decision Haymond made 8 years ago. Such a decision does present a valid reason for the absence of any annual reports from Haymond since 1978: the Commission was unaware of Haymond's continued existence and never sent the annual report forms to Haymond for completion. Therefore, the Commission is of the opinion and finds that Haymond should be allowed to deviate from the requirement that it must have annual reports for

the past 3 calendar years on file with the Commission in order to file an ARF application.

The Commission has long recognized the operation and financial problems encountered by small, privately-owned utilities and views merger with larger utilities as a viable solution to these problems. The Commission has examined the possibility of Haymond being merged with the City of Neon water system and strongly recommends that Haymond pursue such a merger as a means of avoiding such problems in the future. The Commission offers its full assistance in pursuit of this merger.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates proposed by Haymond would produce revenues in excess of the revenues found reasonable herein and should be denied pursuant to KRS 278.030.

2. The rates in Appendix A are fair, just and reasonable rates for Haymond and should produce annual revenues from water sales of \$16,032.

3. Haymond should place the approved rates in effect subject to refund on an interim basis for service rendered on and after the date of this Order and shall continue to charge such rates pending further action by the Commission.

IT IS THEREFORE ORDERED that:

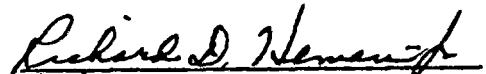
1. The rates in Appendix A be and they hereby are approved subject to refund for service rendered by Haymond on and after the date of this Order.


2. The rates proposed by Haymond be and they hereby are denied.

3. Within 30 days of the date of this Order Haymond shall file with the Commission its revised tariff sheets setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 3rd day of November, 1986.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 9685 DATED November 3, 1986.

The following rates and charges are prescribed for the customers in the area served by Haymond Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Interim Rates

Rates:     Monthly

Residence without bath	\$16.00
Residence with bath	18.00